

Message Text

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PAGE 01 BRASIL 03793 01 OF 03 111708Z
ACTION STR-07

INFO OCT-01 ARA-10 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 AF-10 EA-10 EUR-12 NEA-11 JUSE-00
XMB-02 OPIC-03 /172 W
-----072235 111743Z /43

R 111558Z MAY 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7467
INFO USMISSION GENEVA
AMEMBASSY BENOS AIRES
AMEMBASSY CARACAS
AMEMBASSY MEXICO CITY
AMCONSUL SAO PAULO
AMCONSUL RIO DE JANEIRO

LIMITED OFFICIAL USE SECTION 1 OF 3 BRASILIA 3793

PASS STR ELECTRONICALLY

GENEVA FOR MTN

EO 11652 EO-N/A
TAGS ETRD MTN BR
SUBJECT: US/BRAZIL SUB-GROUP ON TRADE (NOON SESSION, MAY 9):
BILATERAL ISSUES RAISED BY GOB

1. SUMMARY. BRAZILIAN DELEGATION SAID IT WOULD NOT BE
POSSIBLE FOR BRAZIL TO REDUCE ITS RESTRICTIONS ON
IMPORTS UNTIL IT HAS REDUCED ITS EXTERNAL DEBT. THIS IS A
DEPARTURE FROM THE USUAL BRAZILIAN RATIONALE OF
MAINTAINING RESTRICTIONS UNTIL BRAZIL HAS SOLVED ITS
BALANCE OF PAYMENTS PROBLEMS. THE BRAZILIAN SIDE
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PAGE 02 BRASIL 03793 01 OF 03 111708Z

EXPRESSED ITS CONCERN OVER US SALES OF STOCKPILED
STRATEGIC MATERIALS (CASTOR OIL, QUARTZ CRYSTAL),
OVER THE STEEL TRIGGER PRICE MECHANISM AND OVER THE
GENERALIZED SYSTEM OF PREFERENCES. END SUMMARY.

2. BALANCE OF PAYMENTS: DEZOLT (CENTRAL BANK) SAID
THAT BRAZIL HAD MADE SIGNIFICANT IMPROVEMENTS IN ITS BOP

SITUATION, ATTAINING A \$200 MILLION TRADE SURPLUS
IN 1977, AS A RESULT OF CONTAINING IMPORTS AND EXPANDING EXPORTS.
IMPORTS HAVE REMAINED AT THE 1974 LEVEL OF ABOUT
\$12 BILLION. BRAZIL HAD TO TAKE RESTRICTIVE MEASURES AS A RESPONSE
TO THE OIL CRISIS, BUT HAS TAKEN NO NEW ONES
SINCE 1975 AND IN 1977 LIBERALIZED SOME OF THESE MEASURES.
FROM 1974 TO 1977 BRAZIL BORROWED \$21 BILLION IN CURRENCY
LOANS, COMPARED TO \$9 BILLION FROM 1969 TO 1973. THE
EXTERNAL DEBT HAS THEREFORE INCREASED CONSIDERABLY.
BRAZIL IS CONCERNED WITH MAINTAINING ITS EXTERNAL DEBT AT
A LEVEL BEARABLE BY THE BRAZILIAN ECONOMY AND THEREFORE
CANNOT MOVE TO LIBERALIZE ITS RESTRICTIONS AS QUICKLY AS
ITS TRADING PARTNERS WOULD LIKE. GOB NEEDS TO
CONTRACT ITS EXTERNAL DEBT BEFORE UNDERTAKING LIBERALIZATION
OF IMPORTS.
DEZOLT AGREED TO PROVIDE THE USDEL WITH A BRAZILIAN
DOCUMENT NOW CIRCULATING
AT THE GATT NEGOTIATIONS IN GENEVA WHICH HE SAID
GAVE DETAILS ON THE BRAZILIAN ECONOMIC POLICIES.

3. AFTER EXPRESSING APPRECIATION FOR THE OFFER OF THE
DOCUMENT AND FOR THE REVIEW OF THE BOP PICTURE, USDEL
(MONTGOMERY) SAID THAT THE CONTINUED RESTRICTIVENESS OF
THE BRAZILIAN IMPORT REGIME HAS CAUSED MANY COMPLAINTS
FROM US INDUSTRY AND LABOR. THE MEASURE OF PRINCIPAL
CONCERN TO US EXPORTERS IS THE SUSPENSION OF THE ISSUANCE OF
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PAGE 03 BRASIL 03793 01 OF 03 111708Z

IMPORT LICENSES, A MEASURE HARD TO DISTINGUISH FROM AN
EMBARGO. EVEN SURCHARGES AND PRIOR DEPOSITS, STILL
ONEROUS, ARE MUCH EASIER TO DEAL WITH.

4. FOR THE BRAZILIANS, BARTHEL ROSA (BRAZDEL GENEVA)
SAID THE GOB IS AWARE THAT THE SUSPENSION OF IMPORT
LICENSES HAS BEEN AN OBJECT OF SOME CONCERN TO BRAZIL'S
TRADING PARTNERS. BRAZIL HAS BEEN SYSTEMATICALLY REDUCING
THIS MEASURE, HOWEVER. WHEREAS IT FORMERLY AFFECTED \$580 MILLION
IN IMPORTS FROM US, IN 1977 IT AFFECTS LESS THAN \$300 MILLION.
HE EXPRESSED THE HOPE THAT THE US SIDE WOULD TAKE THIS
REDUCTION INTO ACCOUNT
WHEN FACED WITH THE COMPLAINTS OF US EXPORTERS. ALTHOUGH GOB WOULD
AGREE TO BOP CONSULTATION IN GENEVA, HE SAID THAT THE
BRAZILIAN BOP DIFFICULTIES HAVE NOT CHANGED
SO DRAMATICALLY AS TO WARRANT ANOTHER
ROUND OF CONSULTATIONS. BRAZILIAN OFFICIALS
WILL BE WILLING TO ANSWER QUESTIONS IN BILATERAL
CONSULTATIONS WHICH THE US MIGHT HAVE AFTER STUDYING THE
DOCUMENT, AND THEY HOPED IT WOULD NOT
BE NECESSARY TO SEND A BRAZILIAN DELEGATION TO GENEVA.

5. LANDE STATED THAT HE WOULD REFER THE QUESTION ON THE ADVISABILITY OF THE FULL BOP CONSULTATIONS RAISED BY BARTHEL-ROSA TO WASHINGTON. LANDE SAID THAT THE US EXPECTATION FOR THIS AGENDA ITEM WAS TO LEARN WHEN

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PAGE 01 BRASIL 03793 02 OF 03 111716Z
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R 111558Z MAY 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7468
INFO USMISSION GENEVA
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LIMITED OFFICIAL USE SECTION 2 OF 3 BRASILIA 3793

BRAZIL INTENDED TO REMOVE THE DUTY SURCHARGES, THE PRIOR DEPOSITS AND THE IMPORT LICENSE SUSPENSIONS. THE US IS CONCERNED THAT BRAZIL IS NOT TALKING ABOUT TERMINATING THESE RESTRICTIONS BUT RATHER ABOUT CONTINUING THEM, PERHAPS IN REDUCED FORM, BUT STILL CONTINUING THEM. BRAZIL'S BOP SITUATION IS IMPROVING, THE US HAS A VERY LARGE DEFITIT, AND BRAZIL'S OVERALL AND BILATERAL TRADE WITH THE US IS ABOUT IN EQUILIBRIUM. IT WILL, THEREFORE, BE VERY HARD TO EXPLAIN BRAZIL'S CONTINUED USE OF BOP MEASURES. BRAZIL'S NEW JUSTIFICATION FOR MAINTAINING IMPORT RESTRICTIONS TO SERVICE ITS EXTERNAL DEBT MAY WELL LEAD TO THE QUESTION OF WHAT BRAZIL'S EXCUSE WILL BE NEXT TIME.

6. DEZOLT SAID THAT CNTAINMENT OF IMPORTS IS THE ONLY LIMITED OFFICIAL USE

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PAGE 02 BRASIL 03793 02 OF 03 111716Z

WAY FOR BRAZIL TO SOLVE ITS BOP PROBLEMS, BECAUSE IT CANNOT CONTROL ITS TOTAL EXPORTS. BRAZIL HAS IMPROVED ITS TRADE ACCOUNT WITH OECD COUNTRIES BUT STILL HAS A DEFICIT WITH OPEC COUNTRIES. PROENCA ROSA SAID THAT IF BRAZIL LIBERALIZED ITS IMPORTS, IT WOULD HAVE TO GO IMMEDIATELY TO THE INTERNATIONAL MONETARY FUND AND EXPLAIN SUCH THINGS

AS ITS EXTERNAL DEBT AND INFLATION RATE. RE REFERRED TO A STATEMENT BY FINANCE MINISTER SIMONSEN REPORTED IN THE PRESS ON MAY 9 THAT BRAZIL'S EXTERNAL DEBT WOULD INCREASE TO \$35 BILLION BY YEAR END. HE SAID THAT THE JUSTIFICATION FOR MAINTAINING A POLICY COULD BE DIFFERENT FROM THAT IN CREATING IT.

7. US DISPOSALS OF STOCKPILED MATERIALS: PROENCA ROSA SAID THAT BRAZIL HAS BEEN CONCERNED FOR A NUMBER OF YEARS OVER DISPOSALS OF STRATEGIC MATERIALS IN STOCKPILES OF THE GENERAL SERVICES ADMINISTRATION. TWO RECENT CASES ARE MATTERS OF SERIOUS CONCERN TO BRAZIL:
A. CASTOR OIL: BRAZIL AS THE MAJOR WORLD EXPORTER IS CONCERNED ABOUT THE EFFECT ON WORLD PRICES AND ON BRAZILIAN EXPORTS IF THE US CONGRESS AUTHORIZES DISPOSAL OF 600 TONS OF CASTOR OIL.

B. QUARTZ CRYSTAL: BRAZIL, THE MAJOR WORLD PRODUCER AND EXPORTER, IS CONCERNED THAT CONGRESS HAS ALREADY AUTHORIZED DISPOSAL OF AROUND 1000 TONS. THIS QUANTITY REPRESENTS HALF OF BRAZIL'S EXPORTS IN 1975 AND 1976.

7. THE US SIDE (LANDE) ASKED WHETHER THE BRAZILIANS HAD RAISED THE ISSUE OF US DISPOSALS OF QUARTZ CRYSTAL AND CASTOR OIL WITH THE US AND WAS TOLD BY PROENCA ROSA "NOT LIMITED OFFICIAL USE

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PAGE 03 BRASIL 03793 02 OF 03 111716Z

RECENTLY." PROENCA ROSA AGREED THAT THIS WOULD BE THE FIRST OFFICIAL FORMAL REQUEST ON THIS ISSUE AND THE EMBASSY WOULD GET BACK IN TOUCH WITH THE BRAZILIANS. AS BACKGROUND ON THE CASTOR OIL DISPOSAL, LANDE SAID THE US EXPECTED TO DISPOSE OF SMALLER QUANTITIES THAN IT HAD REQUESTED CONGRESS TO AUTHORIZE AND MIGHT SPACE OUT ITS DISPOSAL OVER SEVERAL YEARS. THE STRATEGIC AND CRITICAL MATERIAL STOCKPILING ACT CALLED FOR THE AVOIDANCE OF DISRUPTION OF THE USUAL MARKETS. THE REQUEST FOR DISPOSAL IS 1,250,000 LBS. AS FOR QUARTZ

CRYSTAL, THE US HAD NOT PREVIOUSLY BEEN AWARE OF BRAZILIAN CONCERNS AND WOULD SEEK GUIDANCE FROM WASHINGTON.

8. STEEL: HUGUENEY SAID BRAZIL IS TRYING TO DEVELOP A FAIRLY LARGE STEEL SECTOR AT A TIME WHEN ALL MAJOR IMPORTERS HAVE INTRODUCED RESTRICTIONS ON STEEL PRODUCTS. BRAZIL MUST EXPORT SOME AMOUNT OF STEEL PRODUCTS TO COMPLETE ITS PLANS FOR DEVELOPMENT OF A STEEL INDUSTRY. IT THEREFORE VIEWS WITH ALARM ANY INCREASE IN PROTECTIONISM. HE ASKED FOR AN EXPLANATION OF US STEEL IMPORT POLICY WITH PARTICULAR REFERENCE TO THE TRIGGER PRICE MECHANISM (TPM).

9. LANDE SAID THE TPM IS NOT DESIGNED TO BE AN IMPORT BARRIER BUT RATHER TO PROVIDE SECURITY TO THE MARKET. THERE ARE NO QUANTITATIVE RESTRICTIONS ON STEEL; THE USG REFLECTED PRESSURES TO APPLY THEM TO CARGON STEEL. THE TPM IDENTIFIES PRICES BELOW FAIR VALUE WHICH MIGHT CONSTITUTE DUMPING. IT IS AN AGGREGATE OF A BASE PRICE FOR A STEEL MILL PRODUCT BASED ON THE JAPANESE COST OF PRODUCTION, PLUS SHIPPING, INSURANCE, AND OTHER COSTS. SALES BELOW THE TRIGGER PRICE CAN CONTINUE IF THE EXPORTING COUNTRY CAN SHOW LOWER HOME MARKET PRICES, LOWER COSTS OF PRODUCTION, PROXIMITY OF MARKET. THE TPM IS COMPATIBLE WITH GATT AND DOES NOT

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PAGE 01 BRASIL 03793 03 OF 03 111734Z
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R 111558Z MAY 78
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LIMITED OFFICIAL USE SECTION 3 OF 3 BRASILIA 3793

LIMITED TRADE AS QUANTITATIVE
RESTRICTIONS DO. IF BRAZIL CAN PROVE IT
CAN PRODUCE AT UNDER JAPANESE COSTS, I CAN SELL TO US
AT A PRICE LESS THAN THE TRIGGER PRICE.

10. GSP REVIEW SYSTEM: HUGUENEY SAID THAT BRAZIL HAD
ASKED FOR INCLUSION INTO THE GSP OF ABOUT 50 PRODUCTS.
US REGULATIONS WERE CHANGED JUST AS BRAZIL MADE ITS
REQUESTS AND BRAZIL BELIEVES THESE NEW REGULATIONS MAY
HAVE BEEN A WAY TO PREVENT FURTHER INCLUSION. ALL
BRAZILIAN REQUESTS HAVE BEEN TURNED DOWN ON BASIS THAT
BRAZIL DID NOT PROVIDE SUFFICIENT INFORMATION.

11. LANDE SAID THAT IN 1976 BRAZIL EXPORTED TO THE
US PRODUCTS VALUED AT \$209 MILLION WHICH BENEFITTED
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PAGE 02 BRASIL 03793 03 OF 03 111734Z

FROM TREATMENT UNDER THE GSP. THE FIGURE ROSE
TO \$343 MILLION, INCLUDING NEW PRODUCTS. WHEN THE
GSP WAS NEGOTIATED, US DID ITS MAXIMUM EFFORT IN ELIMINA-
TING DUTIES ON 2500 PRODUCTS FROM MOST
DEVELOPING COUNTRIES. ALTHOUGH THE US DID NOT
HOLD OUT HOPE FOR SIGNIFICANT IMPROVEMENT IN THE GSP, IT
DID PROFICE PETITION PROCEDURES WHEREBY AFFECTED
US INDUSTRY COULD ASK FOR ELIMINATION OF A CATEGORY
OR WHEREBY ANOTHER COUNTRY COULD ASK FOR INCLUSION
OF ANOTHER CATEGORY. THE US TRIES TO MAKE CHAGES ONCE EACH
YEAR. A NEW REVIEW BEGINS IN JUNE. THE INFORMATION REQUIRED
SHOULD BE AVAILABLE TO THE PETITIONERS. IF IT IS NOT,
THE PETITIONER SHOULD EXPLAIN WHY NOT AND AN EXCEPTION
MIGHT BE MADE. OF THE 50 PRODUCTS REQUESTED BY
BRAZIL, THE US HAD FOUND THREE INELIGIBLE, I.E. WOODSTICKS,
RESISTORS AND ELECTRONIC TUBES. OTHERS
STILL UNDER CONSIDERATON ARE BICYCLE FRAMES AND PARTS.

12. IN RESPONSE TO A BRAZILIAN QUERY, LANDE SAID THE USG
FEELS STRONGLY THAT THE GSP IS NOT APPROPRIATE
TO NEGOTIATE IN THE MTN. THE GSP IS A NON-
RECIPROCAL GRANT TO LDCS. BY BRINING UP SENSITIVE
ITEMS FOR INCLUSION IN THE GSP, BRAZILIANS IRRITATE
CERTAIN US SECTORS. IF BRAZIL DOES PAY FOR A GSP
CONCESSION FROM ANTOEHER DEVELOPED COUNTRY THERE WILL BE
STRONG PRESSURE TO SCRAP THE US NON-RECIPROCAL SCHEME.

13 THIS MESSAGE CLEARED BY LANDE AND OTHER DELEGATION
MEMBERS BUT NOT BY AMBASSADOR WOLFF.

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Message Attributes

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Draft Date: 11 may 1978
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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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Disposition History: n/a
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TAGS: ETRD, BR, US, MTN
To: STATE
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